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PORTALS

By LEE
GOMES



Beneath the Glitter, The Humble Phone Still Has the Allure

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It wasn't that long ago that among the Silicon Valley smart set, Alexander Graham Bell's pride and joy was called "plain old-fashioned telephone service," or POTS.

The term was part affectionate, part dismissive. The assumption behind it was that the traditional voice-only telephone would soon wither and die, to be replaced by an Internet-enabled convergence of voice, video and what-have-you.

This week's regulatory Big Bang, if it survives litigation, ought to be another reminder of how, in the end, there was nothing remotely plain or old-fashioned about the telephone at all.

Starting Monday, you can transfer your telephone number from your home phone to your cellphone, or transfer it from one cellphone plan to another. ([Complete coverage.](#))

There are a lot of what economists call "switching costs" involved in giving up a phone number -- paid mostly in aggravation. Thanks to this new number-portability rule mandated by the FCC, however, people will no longer have to pay those costs as they try out new phones and new phone-service plans.

The telephone, it turns out, has a lot of gravitational pull to it; witness the way mobile phones continue to suck in applications from the computer. Visit any cellphone store and you'll see mobile phones with text messaging, Web access, cameras, keyboards video games, music players, and soon, television.

Indeed, getting "just a phone" is becoming more and more difficult to do. Mobile phones these days are home to more free-wheeling innovation than just about any other field in technology. Throw in

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number portability, and there will be even more. Much of this constant redesigning is aimed at the under-25 crowd, which buys most of the world's mobile phones, though these buyers may soon outgrow many of the features.

More than 500 million mobile telephones will be sold this year. One is tempted to say that U.S. technology companies invested in the wrong telecom boom when, in the late 1990s, they poured billions into fiber-optic connections in the ground. Companies were betting that everything would be converging on the Internet via land-based fiber backbones. A lot is now happening in the sky.

This is a world that Silicon Valley watches largely from the sidelines. The economic rules of the mobile-phone world don't play to the U.S. computer industry's strong suit: getting a Microsoft-style or Intel-style lock on a design, then profiting from it until kingdom come.

The closest anyone has to a design monopoly in the new world of telecom is Qualcomm, the pioneer of the transmission system known as CDMA.

Qualcomm gets roughly a 5% royalty on each CDMA phone that is sold -- although that is a pittance by Bill Gates standards.

The average mobile handset these days costs the carriers who buy it about \$160, estimates iSuppli, a market-research outfit. That sum is divided up among a long list of chip, screen and software vendors, all of whom, like Qualcomm, Texas Instruments and others, make respectable, but not stratospheric, profits.

Intel and Microsoft have had only middling success breaking into this market, in part because there isn't a lot of appetite to let them repeat with mobile phones the domination they managed to pull off with PCs.

But while mobile-phone stores may be crowded, not everyone is making money. Mobile carriers, for one, are often strangers to profitability, which is why they are forever conspiring with Nokia, Motorola, Samsung and other handset makers to concoct ways of getting you to eat up airtime. And the overall market has its peaks and valleys: down in 2001, up this year, maybe plateauing in another few years.

For an industry wondering how to innovate next, here is some free advice. I am up to three telephone numbers now: the home number I have had for decades, the cell number I have had for months and the Vonage number I have had for days.

Vonage is an Internet telephone service. For \$35 a month, the company sends you an adapter that is the size of a paperback book. You plug that adapter into your cable modem or DSL connection, and then plug any old-fashioned telephone into that. Right away, your phone is alive with a dial tone and its own number. You can call anywhere in North America for free, and much of Europe and Asia for five cents a minute.

My telecom dream machine would allow me to pare those three numbers back down to one, a single number, preferably my original one, that would work across all three technologies (or two, if I dump my home phone in favor of Vonage or some other "voice over IP" offering.)

But because a home phone doesn't have to be designed to fit into a coat pocket, it is usually much more comfortable to hold and use. Some companies are beginning to introduce cradles that let you use your

ABOUT LEE GOMES

Lee Gomes, who writes the Portals column on Monday and the Portals Exchange on Friday, has been covering various topics, technical and otherwise, for The Wall Street Journal since 1996. He is a graduate of the University of Hawaii and the Columbia University Graduate School of Journalism, and lives in San Francisco. He can be reached at lee.gomes@wsj.com. His Boomtown and Boomtown Exchange columns are available [here](#).

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traditional home phone to send and receive your mobile calls during the times you happen to be at home.

It isn't exactly a dazzling feat of miniaturization, but it's the sort of problem-solving engineering that I, and probably many others, would plunk down cold hard cash to own.

- Send your comments to lee.gomes@wsj.com, and check back on Friday for some selected letters at WSJ.com/Portals.



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